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Internal audit and oversight

Report of the UNDP Office of Audit and Performance Review on internal audit services to UNOPS in 2006*

Summary

The internal audit of the operations of the United Nations Office for Project Services (UNOPS) is carried out by the UNDP Office of Audit and Performance Review (OAPR). The present report presents information on the activities relating to internal audit, management advisory and investigation services provided by OAPR for the year ended 31 December 2006.

Elements of a decision

The Executive Board may wish to: (a) take note of the OAPR annual report; and (b) express continuing support for strengthening the UNOPS internal audit and investigation function.

*The compilation of data required to provide the Executive Board with the most current information has delayed submission of the present report

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Contents

Chapter		*Page*
I.	Introduction	3
II.	Internal audit and oversight in UNOPS	3
III.	Internal audit resources	5
IV.	Risk assessment and audit planning	5
V.	Significant audit results	6
VI.	Management reviews and advisory services	14
VII.	Investigation services	16
VIII.	Overall results and conclusion	16

Annexes (available on the Executive Board web site)

1. Recurrent and/or high priority recommendations
2. Summary of recommendations unresolved over 18 months
3. Definitions of standard audit ratings
4. Audit risk assessment model and audit work plan for 2007
5. Significant audit results
6. Management reviews and advisory services

I. Introduction

1. The Director of UNDP Office of Audit and Performance Review (OAPR) herewith submits to the Executive Director of UNOPS the annual report on internal audit and investigation services for the year 2006.

2. The report presents the work of OAPR for 2006 and the activities undertaken to support the initiatives of the new Executive Director and his management team in strengthening oversight and accountability. It also sets out the results achieved in auditing selected organizational units, functions and project activities as well as in management and advisory services.

3. In submitting the present report, OAPR has taken into account decisions 2006/13, 2005/19 and 2004/39 of the Executive Board.

II. Internal audit and oversight in UNOPS

A. The UNDP Office of Audit and Performance Review

4. Pursuant to the memorandum of understanding between UNOPS and UNDP/OAPR effective 1 January 1997, OAPR provides internal audit and related services in conformity with the relevant provisions of the UNOPS financial regulations and rules, particularly UNDP financial rule 103.02, which applies mutatis mutandis to the internal audit of UNOPS operations.

5. Overall, OAPR successfully carried out the majority of the assignments set out in its approved work plan. In 2006, the internal audit work consisted of 33 assignments. Reports resulting from 30 of these assignments have already been completed and issued. The assignments comprising audits and management reviews are described in chapters V and VI of the present report, which also includes an overview of the categorization of the recommendations, in line with Executive Board decision 2005/19. The significant issues, audit recommendations and actions taken by management on the recommendations are summarized in annex 1 (available on the Executive Board web site), based on the framework approved in Executive Board decision 2004/39.

6. The audit and related services to UNOPS are provided directly by the OAPR Project Services Audit Section under the guidance of the Director of OAPR. As at 31 December 2006, the Project Services Audit Section actual staffing consists of one chief, two audit specialists and an audit assistant.

B. Establishment of UNOPS in-house internal audit capacity

7. During 2006, the UNOPS corporate, governance and organizational structures continued to evolve. Among the significant events relating to its organizational structure are the: (a) appointment of a new Executive Director; (b) appointment of a new Deputy Executive Director and officials in other key positions; and (c) relocation of the UNOPS headquarters from New York to Copenhagen, effective 1 July 2006, in accordance with the decision of the Executive Board.

8. In consideration of the above-mentioned changes, the Director of OAPR proposed to the Executive Director the establishment of an in-house internal audit office for UNOPS in its new headquarters location in Copenhagen. An in-house

internal audit office, physically located at UNOPS headquarters in Copenhagen, would be in a position to dedicate its services and work directly with the new management team to address the risks and challenges, confronting the organization.

9. Following the agreement of the Executive Director with this proposal in February 2007, a transition arrangement has been included in the audit work plan for 2007 and is being implemented. Under this arrangement, OAPR will terminate its services with effect from 30 June 2007 and hand over the function to a newly established audit office within UNOPS headquarters in Copenhagen.

C. UNOPS Risk Management and Oversight Committee

10. The Risk Management and Oversight Committee, which was established in 2005, continued to be an important element of governance and oversight in 2006. The main purpose of the committee is to assist the Executive Director in "fulfilling his/her responsibilities regarding financial management and reporting, internal controls, risk management, and matters relating to external and internal audits".

11. OAPR continued to participate actively in the Committee. The OAPR Director is one of the ex-officio members and, in this capacity, actively supported in strengthening the work of the Committee.

12. In 2006, the Risk Management and Oversight Committee held four meetings to discuss, among other matters, the organizational restructuring and the transition programme; delegation of authority; governance and oversight within the United Nations system, progress of internal audit work; external audit work and status of implementation of external audit recommendations; and internal controls and operating procedures, such as those on procurement, project acceptance and grants.

D. Coordination with the United Nations Board of Auditors

13. The United Nations Board of Auditors performs the external audit of UNOPS operations, in line with the pertinent provisions of the financial regulations and rules. OAPR continued to closely coordinate its internal audit work with the Executive Board. The OAPR annual planning meeting included consultation sessions with the Board, particularly with regard to risks, priorities, audit coverage and follow-up to relevant recommendations. OAPR also made available the results of its internal audit work with the Board.

14. The internal audit work plan for 2006 took into consideration the observations of the United Nations Board of Auditors during its external audit of UNOPS operations. For instance, OAPR conducted an assessment of the critical areas relating to the reconciliation of account balances, as part of the audit of the finance activities, which is discussed further in chapter V of the present report, "Significant audit results".

E. Coordination with other United Nations oversight bodies

15. OAPR continued to work closely with other United Nations oversight offices during the year. It participated in the annual conference of the representatives of the United Nations internal audit services, the conference sponsored by the European Commission on internal audit services, and the first Conference of the States parties to the United Nations Convention against Corruption. It also actively participated in one of the working groups for the United Nations system-wide review of

governance and oversight. The developments, trends and information obtained by OAPR from these joint efforts with other oversight bodies are directly applied by the Project Services Audit Section towards the internal audit services being provided to UNOPS.

16. As discussed in detail in its report on UNDP internal audit (DP/2007/31), OAPR led and actively participated in a working group to harmonize internal audit ratings. In addition to OAPR representatives (for UNDP and UNOPS internal audits), the other members of the working group consisted of representatives from UNICEF, UNFPA and WFP. The harmonized three-level rating system (satisfactory, partially satisfactory, and unsatisfactory), which OAPR would apply in its internal audit of UNDP and UNOPS operations, became effective on 1 January 2007. The harmonized internal audit rating takes into account the internal control system, risk management practices, and their impact on the achievement of objectives.

17. OAPR continued to collaborate with the United Nations Office of Investigation and Oversight Services (OIOS) with regard to certain investigation cases. It was noted that in late 2006, OIOS started two investigations involving UNOPS personnel and activities in Argentina and Kenya, respectively (see chapter VII, below, "Investigation services").

III. Internal audit resources

18. As at 31 December 2006, the OAPR Project Services Audit Section comprised one chief, two audit specialists and one assistant. One audit specialist post became vacant in early 2006, and another such post remained vacant throughout the year.

19. While OAPR initiated the recruitment process for the two vacant posts in early 2006, the process was put on hold based on a request by UNOPS senior management in August 2006. Subsequently, the recruitment process was discontinued pursuant to the discussion between OAPR and UNOPS senior management regarding the establishment of a UNOPS in-house internal audit office in Copenhagen.

20. While staff resources were reduced during the year, workload continued to increase, partly because of ad hoc requests for special reviews or audits by UNOPS management and partly because of OAPR initiatives to enhance the provision of internal audit services. In order to address the resulting constraint, the Project Services Audit Section focused its work on the high-risk areas. In addition, audit consultants and audit firms were engaged to assist in the audit of UNOPS projects.

21. The current staffing capacity of the Project Services Audit Section will be maintained during the first half of 2007 as part of the transition arrangement relating to the establishment of the UNOPS in-house internal audit office.

IV. Risk assessment and audit planning

22. OAPR updated and refined its risk assessment model for UNOPS operations, which was submitted to the Risk Management and Oversight Committee in December 2005, and was used in planning the audits for 2006. The main purpose of the risk-based audit planning approach is to ensure that audit resources are applied in areas of operations that are considered to be of high risk, that is, they would negatively affect the achievement of the objectives of the organization.

23. In conducting a risk-based planning process for the 2006 and 2007 audit work plans, OAPR performed a number of actions, which included: (a) organizing consultations with the senior management team and other key officials of the organization; (b) closely following and considering the ongoing restructuring of the organization, business trends and external factors, as well as recent decisions of the Executive Board; (c) analysing the priorities that were determined during the OAPR management planning meetings in terms of their applicability to UNOPS; and (d) continuously refining the methodology for identifying and measuring the risk factors.

24. The updated risk assessment model was used in identifying the activities to be included in the audit work plan for 2007. The model consists of 12 risk factors, (four qualitative and eight quantitative) in assessing the UNOPS organizational units. The qualitative factors are: (a) stakeholders' concerns; (b) turnover at key management position levels; (c) last audit rating; and (d) results of recent investigations or special audits. The quantitative factors are: (a) stakeholders' concerns; (b) programme budget and expenditure; (c) last audit rating; (d) administrative budget and expenditure; (e) income generation targets; (f) planned business acquisition; (g) number of high-value purchase orders; and (h) time elapsed since the last external or internal audit of the unit. The details are presented in annex 4.

25. In applying the risk factors for the 2007 audit work plan, OAPR took into account the recent changes in the organizational structure, the historical and present quantitative data, the ongoing challenges facing UNOPS, including the concerns raised by the United Nations Board of Auditors, and the results of the consultations with the members of the recently established Corporate Controls Centre at UNOPS. The results of the assessment indicated the following risk rankings of organizational units: two high priorities, seven medium priorities and three low priorities.

26. The OAPR risk-based planning process will continue to be refined and improved to ensure that resources are optimized and allocated to areas that matter most to UNOPS. This factor will become more meaningful in future years, since the new structure is geared towards meeting the business strategy submitted by the Executive Director to the Executive Board during its first regular session 2007 (DP/2007/12).

V. Significant audit results

A. Overview of internal audit services and management reviews

27. The audits and reviews performed by OAPR covered operational activities at headquarters and in the field, including those under management and other support services arrangements, as shown in table 1.

Table 1. Internal audit services provided to UNOPS in 2006, by type of audit

Type of audit	In process 1 January 2006	Audits initiated	Final reports released	In process 31 December 2006
Full-scope or limited-scope audit of headquarters or field organizational units or projects	2	10	9	3

Financial statement audit of management services agreement projects	-	19	19[1]	-
Management review	-	2	2	-
Total	**2**	**31**	**30**	**3**

[1].The short-form audit reports used provide an audit opinion on the UNOPS project financial reports. In addition to those reports, OAPR issued in early 2007 the related consolidated reports containing detailed observations and recommendations

28. A summary of the audits and analysis of key issues, based on the final audit reports released in 2006, are provided below. A summary of the management reviews appears in chapter VI.

B. Audit of organizational units, functions and project activities

29. Nine reports were issued in 2006, three of which were on the audit of organizational units; one was a functional audit; and five were project audits.

30. The OAPR ratings of the overall level of internal control are satisfactory for four audits (45 per cent), partially satisfactory for three audits (33 per cent), and deficient for two audits (22 per cent). The definition of the standard audit ratings in 2006 is shown in annex 3 and is available on the Executive Board website. (Starting in 2007, audit ratings have been harmonized by the internal audit offices of UNDP, UNFPA, UNICEF, UNOPS and WFP.)

31. The audits are briefly described below:

Audit of organizational units and functions

(a) Division of Finance and Administration – overall rating of "partially satisfactory". The audit included a review of financial transactions and account reconciliations relating to the specific United Nations Board of Auditors recommendations. The key issues are: (i) segregating the security access and approval functions of senior finance staff; and (ii) enhancing the Atlas features related to asset and liability accounts, inter- and intra-module reconciliations, which would result in more complete, accurate and timely financial reporting.

(b) Afghanistan Programme Implementation Facility – overall rating of "partially satisfactory" except in the area of managing project budgets and expenditures, which is considered "deficient". The key issues are: (i) incurring expenditures in the absence or in excess of approved budgets; (ii) strengthening the monitoring and follow-up of long-outstanding cash advances; and (iii) lack of a sound business proposal in purchasing equipment for lease to other projects.

(c) Indonesia Programme Implementation Facility – overall rating of "deficient". The key issues are: (i) lack of clarity in the project implementation plan that contributed to operational difficulties, construction delays and cost overruns; (ii) limited use of Atlas in the field, which led to inaccurate expenditure reporting; (iii) weaknesses in the management and control of project budgets, imprest accounts and incurring of expenditure, including the lack of review of outstanding encumbrances or purchase orders in Atlas; and (iv) lack of standard personnel salary structure in the field.

(d) Mine action procurement activities under the Global and Interregional Division – overall rating of "satisfactory", subject to scope limitation. The key issues are: (i) improving the management of the UNOPS vendor database; and (ii) lack of complete records of bid documents or proposals.

Audit of programmes and projects

(e) Establishment of a National Environment Youth Corps project in the Gambia – overall rating of "partially satisfactory". The key issues are: (i) the need to provide a detailed response to government concerns, taking into account the results of the audit, which indicate that the concerns were unfounded and could not be substantiated; and (ii) poor design and deficiencies in the preparation of the project document, including an initial underestimation of some budget lines.

(f) Two programmes in Senegal, 'Creating a Regional Information Network in Western and Central Africa (Fidafrique II)' and 'Western and Central Africa Rural Development Hub (the Hub)' – overall rating of "satisfactory" for each audit. The key issues in both audits are; (i) contradiction in the terms of the agreement concerning the role of UNOPS; and (ii) the need to clarify the requirement to appoint independent auditors, noting that UNOPS is subject to the external audit of the United Nations Board of Auditors, in accordance with the financial regulations and rules.

(g) Support to the Police of the Republic of Mozambique, phase I (MOZ/95/015) and phase II (MOZ/00/007) – overall rating of "deficient". The key issues are: (i) expenditures in excess of the UNDP authorized budget; (ii) the need to reconcile and properly account for the donor contributions under MOZ/95/015; (iii) discrepancy between the project document and the donor agreement in respect of the UNOPS support costs, and (iv) lack of clarity in the outstanding amounts due to contractors.

(h) Timor Leste Programme for Access Improvements to Markets in the Eastern Region – overall rating of "satisfactory". The key issues are (i) implementing stricter and timely personnel actions regarding the selection and posting of project staff; (ii) the need for timely revisions of the project document to account for significant operational changes; (iii) lack of formal approval by the donor to extend the project and related lack of timely communication between UNOPS and stakeholders; (iv) updating of budget revisions in Atlas in a timely manner; and (v) instituting back-up procedures for project data and other information stored in desktops.

C. Audit of project financial reports under certain management services agreements

32. As in previous years, OAPR conducted audits of project financial reports relating to activities implemented by UNOPS under management services agreements and financed from World Bank loans or administered funds. In 2006, financial audits were undertaken for the following 18 management services agreements project activities:

(a) Eight management services agreement projects under letters of agreement between the Nile Basin Initiative and UNOPS, with a total expenditure of $4.5 million for the activity year 2005.

(b) Eight management services agreement projects under letters of agreement between the Government of Afghanistan and UNOPS, with a total expenditure of $33.5 million for the activity year 2005.

(c) Two management services agreement projects under letters of agreement between the borrowing Government and UNDP, in which UNOPS is the implementing agency, with a total expenditure for the activity year 2005 of

$1.4 million for the project in Argentina and $626,000 for the project in Ethiopia.

33. In addition, OAPR carried out an audit of the activity implemented by UNOPS under 'Global Monitoring for Stability and Security', which is financed by the European Commission. The audit was conducted in line with the European Commission guidelines, which require an external audit certification. In this case, OAPR consulted with and obtained clearance from the United Nations Board of Auditors to perform the audit certification. The total expenditure amounted to 59 thousand euros for activity years 2004-2005.

34. Of the 19 financial audits, the resulting overall audit opinions in eight cases are unqualified. OAPR expressed the opinion that the statement of expenditure and status of funds for the projects presented a fair view of the operations. Those eight audits consist of the following management services agreement projects: four in Afghanistan, two under the Nile Basin Initiative, and one each in Argentina and Ethiopia.

35. For the remaining 11 audits, OAPR qualified its opinion, as follows:

(a) For six Nile Basin Initiative projects – (i) in two cases, expenditures exceeded the funds received, resulting in a material fund deficit (which is contrary to the financial regulations); and (ii) in four cases, the expenditures included significant encumbrances that could not be verified because the supporting records were not made available at the time of the audit.

(b) For four projects in Afghanistan – (i) in one case, significant expenditures were incurred in the absence of funds received, resulting in a fund deficit; (ii) in one case, significant expenditures incurred during prior years were transferred to another project during activity year 2005, resulting in a significant credit balance and a mismatch of expenditures by year; (iii) in two cases, material adjustments in expenditures could not be verified because the supporting records were not made available at the time of the audit.

(c) For the Global Monitoring for Stability and Security activity, OAPR qualified its opinion because (i) the expenditures were in excess of funds received and the approved budget, resulting in a material fund deficit, (ii) a separate activity was not created in Atlas to properly account for and record the financial transactions under the activity, and (iii) the reporting year for the Global Monitoring for Stability and Security financial reports does not reconcile with the UNOPS financial accounting period.

D. Key and/or recurrent issues and management responses

36. Pursuant to Executive Board decisions 2004/39 and 2006/13 on internal audit and oversight, a summary of key and/or recurrent issues identified in the above-mentioned internal audit reports are presented in tabular form in annex 1. Based on the recent follow-up by OAPR in early 2007, the concerned UNOPS organizational units provided their latest strategy in addressing the issues, which include the time frame and the indicator of progress or completion.

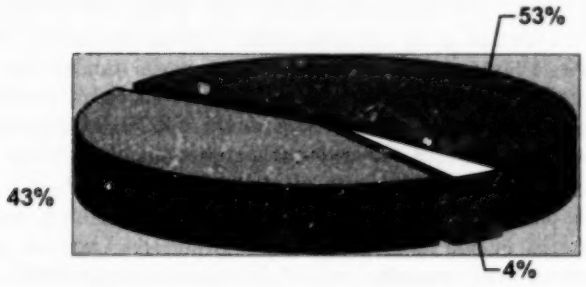
E. Prioritization of audit recommendations

37. To assist management in prioritizing the implementation of actions to address the issues, OAPR provided an analysis in each audit report of the recommendations,

by level of importance. Figure 1, illustrating the categorization of the 75 recommendations, shows that 32 of them (43 per cent of the total) are considered of high importance, 40 (or 53 per cent) are of medium importance and 3 (or 4 per cent) are of low importance. The definitions of the level of importance are shown in the table beneath figure 1.

Figure 1. Prioritization of audit recommendations by importance
Audit reports issued January to December 2006

By importance	Number of recommendations	Percentage
High	32	43
Medium	40	53
Low	3	4
Total	**75**	**100**

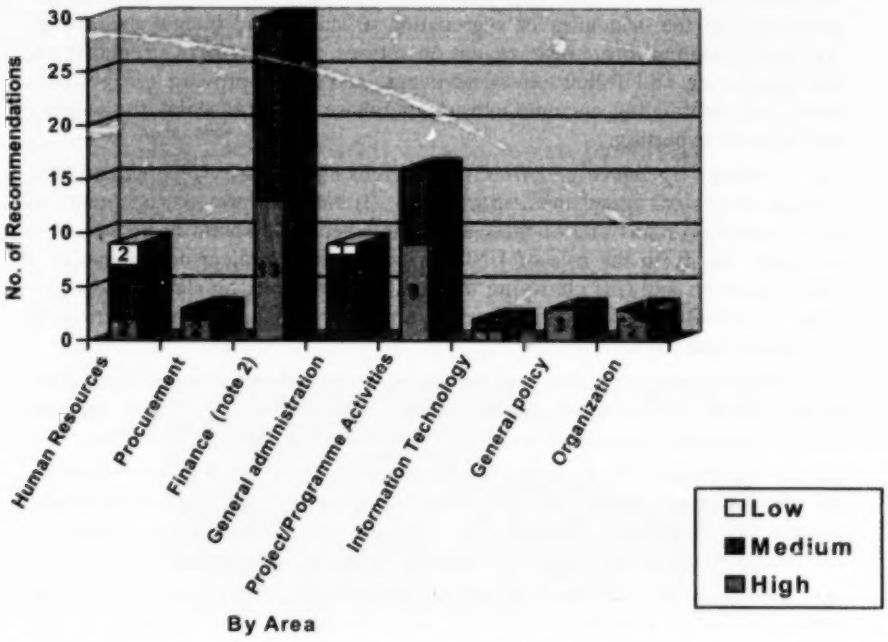


High	Action considered imperative to ensure that UNOPS is not exposed to high risks (that is, where failure to take action could result in critical or major consequences for the organization)
Medium	Action considered necessary to avoid exposure to significant risks (that is, where failure to take action could result in significant consequences)
Low	Action that is considered desirable and should result in enhanced control or better value for money

F. Frequency and prioritization of audit recommendations

38. In line with Executive Board decision 2006/13, OAPR further analyzed the 75 recommendations to identify the frequency of occurrence by area. Figure 2 shows the distribution of recommendations by functional area, which, coupled with the level of importance, provides information on the high priority areas.

Figure 2. Frequency and prioritization of audit recommendations by area and by level of importance (audit reports issued in 2006)



Functional area	Level of importance			Total number
	High	Medium	Low	
Human resources	2	5	2	9
Procurement	2	1	-	3
Finance	13	17	-	30 [1]
General administration	-	8	1	9
Project/programme activities	9	7	-	16
Information technology	1	1	-	2
General policy	3	-	-	3
Organization	2	1	-	3
Total	**32**	**40**	**3**	**75**

39. As shown in figure 2, finance and programme account for the greatest number of audit recommendations considered high priority: finance has 13 high priority recommendations (17 per cent of the total) while programme has 9 high priority recommendations (12 per cent). The high number of recommendations in finance may be attributed to the focus by OAPR in that area, considering the issues raised by the United Nations Board of Auditors in its report on UNOPS.

40. In line with Executive Board decision 2006/13, a further analysis of the recommendations under the eight functional areas shows that the recurrent and/or high priority recommendations are in the following activities:

(a) *Finance.* A recurrent high priority recommendation pertains to incurring of expenditures, specifically, those in excess of approved budget or funds

[1] In auditing organizational units, OAPR focused on the area of finance, specifically on issues that were raised by the United Nations Board of Auditors in its report on the UNOPS accounts.

received. Other high priority activities are: (i) improving financial reporting; (ii) enhancing Atlas features, particularly inter- and intra-module reconciliations; (iii) reviewing financial approval authorities, taking into consideration the principles of segregation of duties and budget ownership; (iv) issues relating to imprest account operations, particularly in strengthening the monitoring and follow-up of advances, and (v) improving the periodic review of outstanding encumbrances or purchase orders in Atlas for validity and accurate reporting.

(b) *Project/programme activities.* A recurrent high priority recommendation pertains to project agreements, specifically: (i) ensuring project documents or implementation plans and budgets are established on a sound basis and with sufficient clarity in the role of UNOPS; (ii) revising project documents in a timely manner; and (iii) clarifying the audit requirements by stakeholders vis-à-vis the UNOPS audit authorities that are in accordance with the financial regulations and rules.

(c) *Human resources.* In one project, the high-priority recommendation pertains to the project salary structure in the field, particularly, complying with UNOPS corporate guidelines and United Nations salary scales in the field.

(d) *Procurement.* The high priority recommendations included: (i) enhancing the vendor management database, especially with regard to establishing criteria for evaluating prospective suppliers and vendors' performance; (ii) establishing a retention policy for all pertinent bid documents and records.

(e) *Information technology.* In one project, a high-priority recommendation pertains to proper data back up procedures in the field.

(f) *General policy.* A recurrent high-priority recommendation pertains to the review and updating of UNOPS financial regulations and rules, particularly with regard to the conditions where expenditure could be incurred prior to the receipt of funds. Another high-priority recommendation pertains to the purchase of project equipment by an implementation facility in order to lease it to other projects.

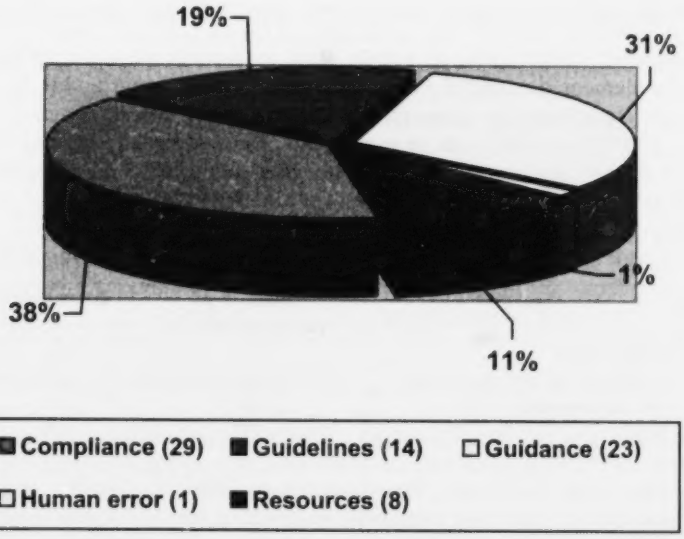
(g) *Organization.* In one project, the high-priority recommendation involves the concerns raised by a host government relating to the organization of the project, which included project management, posting of internationally recruited staff, government involvement in the decision-making process, and coordination.

G. Causes of audit issues

41. An analysis of the causes of audit issues indicated that the most common is a failure to comply with pertinent regulations, rules and procedures (38 per cent). The other main cause was a lack of guidance (31 per cent) or guidelines (19 per cent) in respect of financial and operational procedures. Figure 3 presents the categorization by cause of audit issues.

Figure 3. Categorization of recommendations by cause
Audit reports issued in 2006

By cause	Number. of recommendations	Percentage
Compliance	29	38
Guidelines	14	19
Guidance	23	31
Human Error	1	1
Resources	8	11
Total	**75**	**100**



Compliance	Failure to comply with prescribed UNOPS regulations, rules and procedures
Guidelines	Absence of written procedures to guide staff in performing their functions
Guidance	Inadequate or lack of supervision by supervisors
Human error	Mistakes committed by staff entrusted to perform assigned functions
Resources	Insufficient resources (funds, skill, staff) to carry out an activity or function

H. Implementation of audit recommendations

Audit recommendations made in 2006

42. The audit reports issued in 2006 contained a total of 75 recommendations for improving internal controls and organizational efficiency. Considering the management responses provided in the follow-up by OAPR in early 2007, the concerned organizational units indicated a rate of implementation of 64 per cent on the 2006 recommendations (as shown in table 2, on page 14).

Table 2. Status of implementation of audit recommendations – 2006

Status	Number of recommendations	Percentage
Implemented	48	64
In progress of implementation	25	33
Not implemented	2	3
Total	**75**	**100**

Audit recommendations made in 2005

43. As requested by the Executive Board in its decision 2005/19, OAPR followed up on the implementation status of previous internal audit recommendations, specifically those considered significant issues in the 2005 report. The 2005 report contains 157 recommendations, of which 33 (or 21 per cent) were of high priority, 72 (or 46 per cent) of medium priority and 52 (or 33 per cent) of low priority.

44. In general, OAPR requests action units to provide periodic updates on the status of implementation and reviews the status in subsequent audits or through a desk review. Based on that approach and the latest OAPR desk follow-up from the respective UNOPS action units in early 2007, the concerned organizational units indicated a rate of implementation of 86 per cent on the 2005 recommendations, as shown in table 3.

Table 3. Status of implementation of audit recommendations – 2005

Status	Number of recommendations	Percentage
Implemented	135	86
In progress of implementation	12	8
Not implemented	10	6
Total	**157**	**100**

45. In line with Executive Board decision 2006/13, OAPR analysed the 10 recommendations that had remained outstanding for 18 months or more. The management comments indicate that most of the recommendations could not be implemented owing to: (a) changes in the operating or ground situation; (b) the issuance of guidelines by headquarters that address the audit concern in a different manner; and (c) delays on the part of partners to support the implementation or to provide information. A summary of these unresolved recommendations appears in annex 2.

VI. Management reviews and advisory services

A. Management reviews

46. Two reports were issued in 2006 on the following management reviews: (a) the review of the financial options and scenario for the former Regional Office for Central Asia, North Africa, the Near East and Europe (CANANE), which was based in Geneva, and (b) the financial work-stream review of the UNOPS activities relating to the United Nations Development Group Iraq Trust Fund (UNDG-ITF).

47. The review of the CANANE financial options was requested by the Executive Director, a.i., to advise him of the salient features and fairness of the presentations. Those options relate to implementation of the measures proposed in the UNOPS

action plan to restore its financial viability, as requested by the Executive Board in decision 2005/36. The key issues are: (a) lack of substantiation for the revenue assumption, which could lead to a decision that might be of high risk to the organization; and (b) absence of information on the projected costs of the global service centre to be allocated to CANANE. OAPR recommended that management should take into account these key factors in considering a more meaningful business case for CANANE. (Subsequently, CANANE was incorporated in the headquarters-based operations in Copenhagen, with effect from 1 January 2007).

48. The financial work-stream review of the activities of UNOPS, as a participating organization, is part of a broader "independent lessons-learned and review exercise" covering the first year of UNDG ITF operations. Through a competitive process, OAPR awarded the contract to conduct the comprehensive review to the best-qualified accounting firm. The objective is to assess the propriety of the transactions and processes performed by participating organizations, including UNOPS. The key areas in respect of the UNOPS activities pertain to: (a) the approval process for any increase in budget line items; (b) analysis of indirect costs and conducting an audit; (c) compliance with procurement and financial procedures; (d) specific issues relating to the processes of awarding contracts, receiving bids and making payments. The UNOPS management comments indicated that action had been taken or was being taken to implement most of the recommendations, although, in some cases, UNOPS qualified its agreements and provided additional information and data to support its qualification. In three cases, UNOPS disagreed with the recommendations because of inaccurate facts. In cases where UNOPS qualified its agreement or expressed disagreement, OAPR recommended that they be reassessed in any future review or audit.

B. Provision of advisory services

49. During the reporting period, OAPR continued to render a number of ad hoc advisory services, which included providing comments on policies and procedures. The key areas included the following: (a) internal control framework; (b) accession by UNOPS to the financial management framework agreement between the World Bank and the United Nations; (c) draft procurement manual and related organizational directive; (d) delegations of authority; (f) asset management; and (g) proposed organizational directive relating to consolidation of the functions of the procurement advisory committees (and related functions).

50. OAPR continued to assist in reviewing proposed project agreements containing audit clauses in order to ensure that such clauses were in accordance with the financial regulations and rules, as well as to recommend proposed actions in addressing such audit requirements. An increasing trend by donors and stakeholders to include an audit requirement in project agreements with UNOPS was noted.

51. OAPR provided advice on the unreconciled difference in the inter-office vouchers between UNOPS and UNDP records, which issue is part of the UNOPS financial clean-up exercise addressing United Nations Board of Auditors concerns. As requested by UNOPS senior management, OAPR reviewed the unreconciled balance of $7.1 million (which relates to inter-office vouchers and represents about 70 per cent of the total unreconciled balance) that remained from the initial amount of $69.6 million at the start of 2006. UNOPS indicated that doing additional work to reconcile the difference would be costly and time consuming, and that such an effort might not yield the desired result, since a major portion dates back to 1998 and prior

years. OAPR presented its views as to possible scenarios and requirements to clear the remaining unreconciled difference in the UNOPS and UNDP accounts, including their effects on the submission to the United Nations Board of Auditors by UNOPS of its certified financial statements for the biennium ending 31 December 2005.

VII. Investigation services

52. The memorandum of understanding between UNOPS and UNDP/OAPR does not specifically include the provision of OAPR investigation services. Nevertheless, UNOPS and OAPR managements have worked closely in addressing complaints against UNOPS personnel that are referred to OAPR. In 2006, the investigation section of OAPR received and took appropriate action on four complaints and/or allegations relating to UNOPS personnel, as discussed in the succeeding paragraphs.

53. In the implementation of a management services agreement project, alleged collusion and conflict of interest against a national officer were reported to OAPR. Based on its risk-based methodology for assessing complaints, the OAPR investigation section ascertained that the complaint was not sufficiently well grounded to support a full investigation but requested that UNOPS senior management decide whether a full investigation was to be pursued. It was noted that the United Nations Office of Internal Oversight Services (OIOS) had received the same complaint and conducted a full investigation, with a field visit in November 2006. (In its report in April 2007, OIOS concluded that there was no evidence to substantiate the allegation on collusion, but that the subject of the investigation appeared to be in breach of United Nations staff regulation 1.2(m) regarding ownership interest in a business while a UNOPS staff member.)

54. The OAPR investigation section conducted an investigation into allegations of management and procurement irregularities against a former senior international UNOPS staff member based in the field. (OAPR completed the investigation, and its detailed report, issued in March 2007, substantiated the majority of the allegations.)

55. An allegation of procurement fraud against a national UNOPS staff member in a regional office was reported to OAPR in October 2006. It was noted that OIOS had received the same allegation and conducted an investigation with a field visit in December 2006. At the end of 2006 the case was still under investigation. (In February 2007, OIOS provided a preliminary briefing to OAPR and UNOPS senior management on the progress of its work and conducted a follow-up visit.)

56. OAPR received a complaint into procurement actions in an operational division and that a married couple was working in the same division in breach of United Nations staff rule 104.10(c). The matter was initially addressed through a special audit. Since the results of that special audit did not detect any irregularities, a full investigation was not warranted.

VIII. Overall results and conclusion

57. In 2006, the OAPR internal audit services covered a number of operational and project activities (33 assignments, with 30 reports were issued during the year) which, when compared with the planned audits (42 assignments), indicated a 79 per cent implementation rate. Those results should be reviewed in the context of

the reduced Project Services Audit Section staff resources, as well as the significant changes in the UNOPS corporate, governance and organizational structures.

58. In terms of the internal audit function, there is still room for improvement in the following key activities: (a) reviewing internal audit resources to meet the increasing requirements by stakeholders for assurance and reporting; and (b) refining the risk-assessment model, including the identification of risk factors for projects and programmes, so as to ensure appropriate audit coverage of the high-risk areas.

59. Finally, OAPR considers that the 2006 achievements and the identification of areas requiring further improvement would contribute to providing a solid basis in the transition by UNOPS from the total internal audit outsourcing arrangement (with OAPR) to having its own in-house internal audit office (as of 2007). OAPR will work closely with the new UNOPS in-house internal audit office for a comprehensive handover to ensure continuity of internal audit services. In addition, OAPR would seek to collaborate continuously with UNOPS management in enhancing oversight and accountability within the United Nations system and, particularly, in harmonizing internal audit approaches and procedures to align them with internationally recognized standards.